



Statement for the Record

Hearing on Tax Reform and Charitable Contributions
Committee on Ways & Means
United States House of Representatives
February 14, 2013

Delivered by the Partnership for Philanthropic Planning
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About the Partnership for Philanthropic Planning

The Partnership for Philanthropic Planning (PPP) is a public charity that supports the missions of thousands of charitable organizations nationwide and the philanthropic, financial, family and personal goals of donors who sustain them. Through the practice of charitable planning, PPP members are working to increase voluntary contributions to charitable organizations across the nonprofit sector, including education, healthcare, social services and poverty relief, religion, art, and the environment. The Partnership strives to engage all constituents in the charitable gift planning process: planned giving and major gifts professionals, nonprofit managers and trustees, financial and estate planners, trust managers and administrators. PPP represents 110 chapters nationwide and nearly 9,000 individual gift planners.

Support the Current Income Tax Charitable Contribution Deduction

PPP respectfully urges Congress to maintain the current income tax charitable contribution deduction to support American philanthropy.

Tax incentives for charitable giving, such as the income tax charitable contribution deduction, have been sending for almost 100 years an essential message about the core American value our society places on voluntary giving and the important role of charitable organizations in meeting critical individual and community needs.

Though studies indicate that donors give for many reasons, incentives such as tax deductions are among them. While Americans do not make charitable gifts only for tax reasons, tax incentives make more and larger gifts possible and more prevalent.

The true beneficiaries of the charitable donation are not the generous Americans who make charitable gifts, but all citizens whose local communities both within our nation and throughout the world are made better through the work of our charitable sector. The income tax charitable contribution deduction is not a matter of providing a reward or something of value to the taxpayer; rather it is a matter of encouraging those with financial means to use their wealth to support charitable causes of their choosing and to help those in need. This voluntary redistribution of wealth is a cornerstone of America's philanthropic heritage, which is duly respected across the world.

Recent history and the actions of the federal government reveal that tax incentives do, in fact, affect charitable giving. During times of crisis, such as the natural disasters like Hurricane Katrina, the 2008 Midwest flooding and the 2010 Haiti earthquake, Congress passed charitable giving incentives to make it easier for Americans to give donations and other support to charities serving individuals, families and communities in need. Those incentives resulted in increased levels of resources to those charities caring for the victims.

PPP respectfully and strongly opposes any proposal that would eliminate or limit the value of the income tax charitable contribution deduction. By its own actions Congress has proven that incentives for charitable giving work.

The Administration's proposal to cap itemized deductions at 28 percent (and the variety of proposals discussed in the Present Law and Background Relating to the Federal Tax Treatment of Charitable Contributions, prepared by the Staff of the Joint Committee on Taxation, February 11, 2013 (*JCT Report*)) would have long-lasting negative consequences on charitable organizations that millions of Americans rely on for vital programs and services.

For instance, it is estimated that the proposed 28 percent cap on itemized deductions could cost charities as much as \$7 billion per year in charitable contributions. In addition, Americans strongly support the income tax charitable contribution deduction. In an April 2011 Gallup poll, 71 percent opposed eliminating such deduction to lower the overall income tax rate, and 68 percent opposed eliminating such deduction to reduce the federal budget deficit. More people supported such deduction than other popular deductions, like the deductions for home mortgage interest and state and local taxes.

Further, tax policy experts have noted that charitable giving is more sensitive to tax law changes compared to other deductible payments, as taxpayers generally cannot adjust their local taxes or mortgage payments. However, taxpayers can easily adjust their levels of charitable contributions in response to tax law changes.

The difficult economy has had a significant impact upon America's charitable community. According to the IRS, Americans claimed deductions for \$172.9 billion in charitable contributions in 2008, a 10.6 percent drop from 2007. More recent IRS estimates project that Americans only claimed \$148.6 billion in charitable contributions in 2009, an additional 14 percent drop. It is also worth noting that the IRS data indicates that taxpayers earning more than \$200,000 contributed \$49.6 billion to charities in 2009. When the economy stagnates, charitable organizations and their services are needed the most. Charities often bridge the gap by serving our communities and those in need when budgetary constraints hinder local, state and federal governments from providing similar services.

Lastly, wealthy Americans will not alone bear the brunt of any elimination or limitation of the income tax charitable contribution deduction. A reduction in charitable giving harms the charitable sector, which correspondingly hurts the people, typically the poorer populations, who rely upon these services.

Enhance the Current Income Tax Charitable Contribution Deduction

PPP respectfully and strongly requests Congress to enhance and expand the income tax charitable contribution deduction.

The income tax charitable contribution deduction is unique among most, if not all, deductions under the Internal Revenue Code. Congress entitles taxpayers to take tax deductions to incentivize individuals to take certain actions.

For instance, home ownership, retirement planning and business expenses are all deemed by Congress to be valuable for our collective society, and deductions are available for certain prescribed actions. However, the actions necessary to entitle a taxpayer to deduct those expenditures are, in reality, based upon a direct personal, tangible benefit – i.e., the promotion of their own home ownership, of their own individual retirement planning, and of their own profit making opportunities in business. Taxpayers are entitled to offset those personal expenditures as deductions against taxable income. In fact, Congress has deemed such expenditures to merit favorable tax treatment, as it is expected that indirect or ancillary societal benefits would be achieved.

However, this personal and practical reality must be distinguished from the reality of giving to charity. When a donor makes a gift to charity, the donor achieves no personal or financial gain, except maybe for the “warm glow” as described in the JCT Report. In fact, the donor fully and forever loses dominion and control of the assets given to charity. This fact makes the charitable deduction unique among tax deduction incentives, and Congress should be promoting and enhancing these types of unselfish and eleemosynary contributions for the benefit of society.

It is hard to qualitatively compare a taxpayer’s ‘warm glow’ from forever giving away his or her assets to charity to a taxpayer’s ‘warm glow’ from investing in his or her own business. And, especially for wealthier donors, the income tax charitable contribution deduction has limits that, in many instances, restrict the ability of the taxpayer to deduct significant contributions in the year of the gift or even over the five-year carryforward.

Lastly, legal safeguards are already in place to take into account different types of assets being given to different types of charitable organizations, including adjusted gross income percentage limitations, a vast array of penalties, substantiation rules, etc.

PPP is grateful for the opportunity to share this short written comment in support of the income tax charitable contribution deduction for consideration and would graciously assist Congress in any manner to responsibly and effectively enhance and expand such unique and essential tax incentive.

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